NATURAL RESOURCES

June 2005

Economic and Revenue Forecast

Fiscal Year 2005 – Fourth Quarter

WASHINGTON STATE DEPARTMENT OF
Natural Resources
Doug Sutherland - Commissioner of Public Lands

Acknowledgements

The quarterly revenue forecast is a collaborative effort. It is the product of information provided by private individuals and organizations, as well as by DNR staff. Without their contributions this forecast could not be completed.

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Acronyms and abbreviations

C$	Canadian dollar
CPI	Consumer Price Index
CY	Calendar Year
DNR	Washington State Department of Natural Resources
FDA	Forest Development Account
Fed	U.S. Federal Reserve
FY	Fiscal Year
GDP	Gross Domestic Product
mbf	Thousand board feet
MMbf	Million board feet
NAFTA	North American Free Trade Agreement
OPEC	Organization of Petroleum Exporting Nations
RMCA	Resource Management Cost Account
RCW	Revised Code of Washington
US$	U.S. dollar
WTO	World Trade Organization
Y	Japanese yen

Contents

Preface

This forecast projects revenues from Washington State trust lands managed by the Department of Natural Resources (DNR). These revenues are distributed to funds as directed by statute. DNR revises its forecast quarterly to provide updated information for trust beneficiaries, as well as for department budgeting purposes.

This forecast covers fiscal years FY 05 through FY 09. The baseline date for this June 2005 forecast is March 31, 2005, the end of the third quarter of FY 05. While actual sales, removal, and revenue data are current as of this date, the forecast is based on the most up-to-date data available. Macroeconomic and market outlook data are the most up-to-date available when the forecast was written.

Unless otherwise indicated, values are expressed in nominal terms, without adjustment for inflation. Therefore, interpretation of trends in the forecast requires care in separating inflationary changes in the value of money over time from changes attributable to other economic influences.

Forecast Calendar

The table below shows the anticipated schedule for future DNR Economic and Revenue forecasts. DNR forecasts provide information that is used in the statewide Washington Economic and Revenue Forecasts by the Office of the Forecast Council. The timing for DNR forecasts is determined by the schedule of the statewide forecast, prescribed by RCW 82.33.020. The schedule prescribed by RCW 82.33.020 is reflected in the release date, when preliminary revenue forecast estimates are available. Publication of the forecast document follows approximately two weeks later.

Forecast Calendar

Forecast Title	Baseline Date	Release Date	Publication Date (Approx.)
September 2005	End Q4, FY 2005	Sept. 7, 2005	Sept. 21, 2005
November 2005	End Q1, FY 2006	Nov. 7, 2005	Nov. 21, 2005
March 2006	End Q2, FY 2006	March 7, 2006	March 21, 2006
June 2006	End Q3, FY 2006	June 7, 2006	June 21, 2006

Part 1. Current Economic Conditions

U.S. Economy

" . . . the U.S. economy seems to be on a reasonably firm footing, and underlying inflation remains contained."

Alan Greenspan
Congressional testimony
June 9, 2005

In 2004, the U.S. and China had real GDP growth rates of 4.4 percent and 9.5 percent, respectively. Growth by other major trading partners lagged behind: Europe grew at just 2.0 percent, Canada by 1.7 percent, Japan by 2.6 percent and the rest of Asia (excluding China and Japan) by 4.2 percent.[1]

Why has the U.S. economy out performed most of the rest of the developed world? One factor was the increase in labor productivity of American workers. The performance of productivity in the U.S. economy has delivered some big surprises over the last several years. In the 1970s and 1980s, productivity slowed from 2.0 percent to just 1.5 percent. In the latter half of the 1990s U.S. productivity growth unexpectedly surged to an average annual rate of over 3.0 percent. An even bigger surprise has been the further increase in productivity in the first half of the 2000s to 3.8 percent.

The full explanation of these increases in productivity is still a matter of debate but they are probably attributed to three factors; 1) capital deepening—more capital per worker, 2) improved labor quality, or human capital—a better educated and/or more skilled workforce, and 3) productivity gains—introduction of new technology with the expansion of the use of computers, Internet and wireless communications being cited as examples.[2]

The lessons from previous general-purpose technologies such as electricity, as well as recent theoretical and empirical work, suggest that the necessary complementary investments and innovations take place only with long lags. For example, students who

[1] The US has about 21 percent of world GDP, European union about 21 percent, China 13 percent, Japan 7 percent, Canada 2 percent, rest of world 36 percent
[2] Economic Letter, Federal Reserve Bank of San Francisco, Number 2005-4 & Number 2005-5 http://www.frbsf.org/

grew up with computers and the Internet are just now entering the workforce. Thus, it could be that the promise of the Internet and other new technologies will continue to be realized over a long period.[3]

Short-term volatility in productivity is not unusual, so it seems likely that the underlying level of productivity going forward will probably remain high for the remainder of the forecast period.

CONSUMER CONFIDENCE

The May 2005 consumer confidence index climbed to 102.2, up from the revised 97.5 reading in April, indicating that U.S. consumers' concerns about the economy and jobs have eased. Increased consumer confidence and lower interest rates have boosted retail sales. Despite increased sales of large-ticket items like autos, inventories continue to increase; this should help hold retail prices and core inflation down. The confidence index, while slightly below year-ago levels, continues to signal economic growth in the U.S. economy.

The U.S. economy seems to be moving ahead at a clip that is about right—strong enough to create new jobs, but not so strong as to spur new inflation. The U.S. economy continues to exceed expectations, expanding by 3.5 percent in the first quarter of CY 05 on the heels of a solid 3.8 percent growth rate in the last quarter of CY 04. The economy has withstood $55-per-barrel oil prices, rising short-term interest rates, a softening manufacturing sector and average employment numbers.

Even as U.S. economic growth surprised on the upside, inflation expectations have remained sedate, as core inflation is now running at just 2.2 percent on a year-over-year basis. Low inflation and a global savings glut have dropped the 10-year government bond yield down to just 4.1 percent, despite a 2 percent increase in short-term interest rates over the last two years that have brought the Federal Funds rate to 3.0 percent. Going forward, real GDP is expected to grow slightly below trend over the remainder of CY 2005 and then bump up in CY 2006 as oil prices level off or fall from their current level and employment begins to grow. Expect real GDP to expand by 3 percent in CY 05 and by 3.7 percent in CY 06.[4]

While the outlook for the U.S. economy has improved significantly over the past six months or so, the economy is not without imbalances, some of which are the result of or aggravated by the imbalances in world growth. These include the U.S. trade and budget deficits, and high prices for energy, commodities and assets, including housing prices.

[3] Fernald, J. and S. Ramnath. 2003. "Information Technology and the U.S. Productivity Acceleration." Chicago Fed Letter, Number 193.
http://www.chicagofed.org/publications/fedletter/2003/cflsept2003_193.pdf
[4] RISI Monthly Economic commentary dated May 2005

U.S. Trade Deficit and the U.S. Dollar

The U.S. trade deficit shrank a surprising 9.2 percent in March but recovered about half of that in April. The decline came as imports of goods and services fell at the fastest rate in four years and exports rose to record levels.

It's too early to tell for sure, but over the past six months a trend in the U.S. trade deficit appears to have been developing in which the deficit is leveling out or at least the rate of growth is slowing. Even if the trade deficit were to level off at this level, it would come in at over $660 billion for all of CY 05, up 10 percent from CY 04.

In general, concern over the trade deficit is waning. A study by the McKinsey Global Institute, found that about one-third of the U.S. deficit is the result of overseas trade with the foreign operations of U.S. companies. They found that "a large and growing share of the deficit simply reflects the international reach—and success—of the strongest US companies . . . an automaker importing cars assembled in Mexico, for example, or a bank using call centers in India ...may add to the nation's trade imbalance, but they also create significant value for U.S. customers, companies and shareholders." [5]

Another reason why concern over the trade deficit is waning is the apparent continued willingness of foreigners to finance the U.S. trade deficit by purchasing U.S. government bonds and other U.S. assets even as the yield on those bonds falls. If the U.S. is consuming too much and saving too little, then most of the major economies in Asia, and to a lesser extent in Europe, are clearly saving too much and consuming too little, and are more than willing to continue to lend those savings to the U.S.

It is becoming increasingly likely that U.S. exports are unlikely in grow significantly more than our imports because of the weakness in Western Europe and Japan and the over-reliance on export-led growth in emerging Asia. These economies simply are weakened more by a falling dollar than their consumption is stimulated by lower prices.

The disparity in the economic growth prospects of the U.S. and most of its main trading partners, as well as the magnitude of the gap between U.S. imports and exports, means that the U.S. trade deficit is unlikely to turn around over the forecast period, even after the effects of the weaker dollar are taken into account. However, these effects will prevent the situation from deteriorating. While the trade deficit is not expected to fall in nominal terms, it should level off over the forecast period and decline, as a percentage of GDP, from 5.8 percent down to 4.5 percent in 2009. Funding of the trade deficit going forward should not create a drag on the U.S. economy as the deficit grows slower than the growth in the economy and relatively low bond prices reduce the cost of funding the trade deficit.

[5] Chris Isidore, CNN, April 11, 2005
http://money.cnn.com/2005/04/11/news/economy/trade_walkup/index.htm

THE U.S. DOLLAR

Further significant reduction in the value of the U.S. dollar now seems unlikely for two reasons: 1) A lack of consumption by our trading partners which has created a so-called "global savings glut," and 2) a growing need of our trading partners to keep their own currency values low, to keep their export sectors humming to offset weakness in their domestic economies. Even so, the U.S. dollar could lose another 10 percent or so over the year and then appreciate only gradually thereafter.

Energy Prices and Inflation

"The time when we could count on cheap oil and even cheaper natural gas . . . is clearly ending"

Dave O'Reilly,
The chairman of
Chevron Texaco

ENERGY PRICES

Strong U.S. fuel demand and continuing supply concerns, pushed crude oil prices up $12 (25 percent) in the past four weeks to $59, an all-time high nominal crude oil price, but the all-time real price (adjusted for inflation) peak was in 1981, when real prices reached $80 per barrel in today's (adjusted for inflation) dollars. Despite lower price at the pump, crude oil has now gained 35 percent since the start of the year and crude oil futures for the peak demand period later this year are all over $60 per barrel.

Oil prices have been boosted by the weak dollar, increased speculation, stronger-than-expected demand (particularly from China), geopolitical uncertainties surrounding events in the Middle East, and uncertainty about OPEC's ability (and willingness) to deliver enough oil to meet world demand.

Going forward, many, if not all, of these forces remain in play, so we definitely could see even higher prices during the forecast period. But, to date, unlike in the 1970s, the U.S. and the world economies have shrugged off the higher prices with little impact on growth or core inflation. Three factors contribute to this result: 1) prices are lower in real terms; 2) the world economies are all much less dependent on oil than they were in the 1970s; and 3) because of increased competition through globalization, high oil prices have not led to higher rates of core inflation.

Despite the response from alternative sources, during the forecast period, the world will become more dependent on supplies from OPEC. For the long run, it is in the interest of Saudi Arabia (which controls the lion's share of OPEC oil supply) to keep prices in check to prevent both conservation in consuming nations and increase in production of crude oil in non-OPEC countries. The Saudis have proven reserves to last "until the end of the

century" and want to protect the value of those reserves. The Saudis know "The Stone Age did not end because the world ran out of stones," and they don't see it in their interest to hasten the end the age of fossil fuel until they run out of crude. Nor do they wish to choke off world growth as they "thrive on the growth of others," which is now linked with energy demand.

The conditions that led to higher oil prices appear to have lessened at least for the time being. For now, global and Chinese demand for oil has already started to slow, geopolitical tensions in the Middle East have eased, and the U.S. dollar has stabilized. Growth in world oil demand is expected to slow to 2.6 percent this year and during 2006, from 3.2 percent in CY 04, according to the U.S. government's energy forecasting agency. Further market forces seem to be responding quickly to boost supplies and curtail demand in response to higher prices.

Look for oil price to remain relatively high for the forecast period, with a tendency to retreat from current levels but to remain volatile, as imbalances (real or perceived) could easily cause prices to rise above current levels.

INFLATION

The Consumer Price Index fell in May 2005, by 0.1 percent, compared with a 0.4 percent rise in April. The so-called core CPI, which strips out often-volatile food and energy prices, increased by 0.1 percent after being unchanged the prior month. The overall CPI is up 2.8 percent over the last 12 months, while the core was up just 2.2 percent.[6]

Higher energy prices along with strength in the economy haven't resulted in an increase in the core inflation rate as it did in the early 1980's for two reasons: 1) higher productivity both in the U.S. and China, and 2) credible inflation fighting by the Federal Reserve. This is true not just in the U.S. but in the world economy as well.

Going foreword expect inflation to remain subdued for the forecast period as energy prices fall from their current high level.

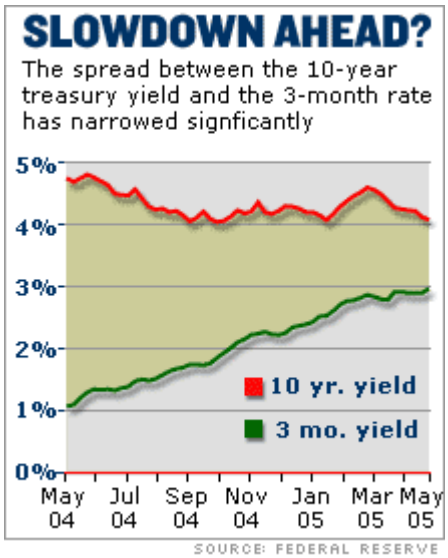
[6] Source: U.S. Department of Labor Bureau of Labor Statistics http://data.bls.gov/cgi-bin/surveymost?cu

Interest Rates

"For the moment, the broadly unanticipated behavior of world bond markets remains a conundrum."

Federal Reserve Chairman Alan Greenspan,
Testimony before Congress
February 17, 2005

What's the conundrum? Beginning exactly a year ago in June 2004, the Federal Reserve (Fed) began its policy of "measure" increase in the Federal Funds interest rates. At each of its eight meetings since then, the Fed has increased the rate a quarter percent, from 1 percent to 3 percent today. The Fed had expected longer term rates to have been increased by a similar amount, but over the same period the yield on the benchmark 10-year bond has fallen from 4.75 percent to 4.0 percent, its lowest level in 14 months. (See graph to the right). The yield on 30-year bonds is not much higher at just 4.2 percent. Mortgage rates have also fallen from 6.25 percent last year to 5.5 percent today.[7]



Historically, as short and long rates get closer (a flattening of the yield curve), slower economic activity usually results, and if short-term rates rise above long-term rates, a recession is virtually always in the offing. The last time the yield was inverted (short-term rates greater than long-term rates) was from July through November 2000, right about when the last recession began. But there seems to be little collaborating evidence that the economy is about to enter a major downturn, and in fact the economy was strong over the last year as the yield curve flattened. As Chairman Greenspan stated "the economy seems to be on reasonably firm footing." Yes, manufacturing remains low and job growth is week, but over the past year economic output has been strong, retail sales are growing and consumer confidence has improved.

So why have long-term rates come down? In a recent speech, Greenspan speculated that yet unidentified "new forces" were likely behind low, long-term interest rates and the situation was unlikely to change anytime soon.

Likely there is more than one factor at work here, a partial answer to why long-term rates have declined is that borrowers are demanding less premium on longer bonds because they believe inflation will remain low because of increased globalization and increased ability (and determination) of central banks world wide to keep inflation low. Also,

[7] Source CNN June 8, 2005

contributing to the downward trend on the yield on long-term bonds and therefore mortgage rates is the global savings glut described above. As evidence, lower long-term yields are not limited to the U.S., as bond yields have fallen around the world. Further, yields for both investment-grade and less-than-investment-grade corporate bonds have declined even more than U.S. Government bonds over the same period.

Our assumption has long been that the Fed would continue to increase short-term interest rates until they reached the "neutral zone" where the federal funds rates are neither stimulating inflation nor discouraging growth, but the Fed is not saying where it thinks the zone is. The zone is generally believed to be between 3.5 percent and 4.5percent, but no one knows for sure just where that zone is, in part because the zone tends to move over time and is acted upon by outside shocks. It's a moving target, and the flatter yield curve would indicate that it might have shifted down.

So the question is, "Will the Fed stop increasing short-term rates sooner than previously thought?" The Fed wants to keep the core inflation rate (the consumer price index, excluding food and energy prices) in a range between 1.5 percent and 2.5 percent on a year-over-year basis[8], which it is. As the Chairman has stated, "underlying inflation remains constrained." The problem for the Fed is, that if it continues to increase rates it risks triggering a slowdown in economic activity, if it stops increasing rates it risks triggering inflation down the road.

In fact, the Fed may be signaling that it is near the end of its measured increase in rates. On the first of June, Federal Reserve Bank of Dallas President, Richard Fisher, told CNBC TV that the Fed might be getting close to the end of its tightening cycle. This is the first sign that the Fed thinks it's approaching the zone. After Fisher's comments and a report on weak manufacturing, the yield on the 10-year federal bonds fell below 4 percent to a 13-month low of around 3.90 percent (probably not something the Fed wanted to see).[9]

The Fed next meets on June 30, and while the Fed's decision to hold, or increase, short-term interest rates will depend on what happens between now and then, look for the Fed to increase interest rates by one or two quarters over the next two meetings then hold interest rates steady until inflation shows signs of heating up and/or long-term interest rates increase. The Fed will be leery of increasing rates beyond that and contributing to an economic slowdown.

If the Fed puts interest rate increases on hold (after one or two more quarter-percent increases), there will be little or no impetus for long-term bond or mortgage rates to increase and they may even continue to inch down slightly as housing starts simply run out of momentum because of saturated demand.

[8] Source: Larry Meyer (Fed Board Governor from 1996 to 2002) in a speech April 15, 2005.
[9] Source CNN http://money.cnn.com/2005/06/01/news/economy/fed_fisher.reut/index.htm

For the forecast period, interest rates could rise as economic growth accelerates, especially if growing energy costs start to push up inflation. However, interest rates are expected to remain low by historic standards. Going forward, look for continued productivity gains to keep downward pressure on real interest rates (now just 1.5 percent), while low inflation holds down nominal rates.

Part 2. Implications of Current Economic Conditions for Forecast

U.S. Housing

HOUSING PRICE

U.S. housing prices have increased by 73 percent since 1997 (51 percent real), an annual rate of 7.1 percent (4.7 percent real). Nationwide, median home prices increased by 15.1 percent in the year through April, pushed higher by low mortgage rates, income growth and speculation in some markets. During the first quarter of CY 05 home values continued to appreciated at an annual rate of 8.82 percent.[10]

Is there a housing bubble? On May 20, 2005, Federal Reserve Chairman Alan Greenspan weighed in, saying he didn't believe there was a national bubble, but noted that there are enough local markets experiencing a bubble in home prices to justify saying there is a "froth" in the housing market. Even if there isn't a housing bubble, it's becoming increasingly hard to believe that housing prices can continue to increase at anywhere near the rate they have been for very much longer without triggering some sort of adverse reaction.

Besides the fact that housing prices have been increasing rapidly, there are a number of signs that prices are getting out of balance;

1) Owning a home is becoming much more expensive compared to renting. The ratio of median rents to median monthly mortgage payments has declined sharply, even after adjusting for quality differences. This indicates that the speculative component of home prices has risen relative to the service flow associated with living in the home.
2) A growing percentage of home purchases are based on future appreciation, the very definition of a bubble. According to the National Association of Realtors, 23 percent of homes purchased in 2004 were for investment—either vacation homes or rental properties.
3) Banks are loosening credit. Banks have been very "creative" in their lending to qualify borrowers for bigger loans, by increasing the percentage of interest-only mortgages and the expanded use of exotic mortgages, including adjustable rate mortgages. About a third of mortgages being written today include some

[10] The Office of Federal Housing Enterprise Oversight report dated June 12, 2005

adjustment clause so that payments will increase automatically over time or if interest rates increase. This leaves homeowners increasingly vulnerable to a slowdown in the economy as well as increasing interest rates.

4) Home ownership is nearing saturation. Home ownership rates have increased to an all time high of 69 percent. Sooner or later that has to level off, resulting in a reduction in demand. At current start levels the proportion of homeowners has been increasing, but that can't go on forever. Sooner or later starts have to fall as the proportion of home ownership levels off.
5) New Housing starts are well above long-run demand. Housing starts have grown by 25 percent since 2000 (currently 2.0 million per year) and are running well ahead of demographically sustainable levels (1.75 million). Eventually demand will be saturated, but builders will continue to pump out new starts onto the market, triggering the bubble's collapse.

Still, there are reasons why the current round of price increase may not end tragically:

1) From a historical perspective, the nationwide median home price has never declined outright in any year since WWII, but there are plenty of examples where prices have declined in local markets, and it seems likely that some local markets will fall prey to bubbles, even if the overall index does not decline.
2) Any reduction in housing prices wouldn't be comparable to the 2000 dot.com meltdown for a number of reasons:
    a. Homes are tangible; so replacement cost limits how far prices can fall even in a down market
    b. Transaction costs are higher; so owners are much more likely to simply hold on to property if they can't sell at a profit.
3) Historically, there has been a tendency for housing prices to increase at a higher rate than inflation because of several factors:
    a. The land component of the housing package.
    b. The price increases of permitting and lot development outpace inflation.
    c. Housing construction is labor intensive and labor cost tends to increase at a higher rate than inflation.
    d. Technologically changes have tended to improve the quality of new homes and existing homes through remodeling.
    e. The size of new and existing homes has increased over time.
    f. Housing prices have tended to go up in spurts followed by periods of relatively stable prices usually associated with economic slowdowns.
4) Lower interest rates tend to drive up housing prices in several ways
    a. By increasing affordability
    b. By reducing the cost of rental housing
5) Housing prices aren't increasing just in the U.S. but throughout the developed world (notable exceptions are Japan and Germany).
6) Homeownership rates could continue to increase for several years. Already, a record 69 percent, by 2012 or so, it is predicted to be 72 percent. Most of the gain will be in the West, where ownership rates, at about 64 percent, lag behind the rest of the nation and immigration rates are high. Typically, immigrants buy

homes about 10 years after arrival in the U.S. Owning one's own home is a big part of the American dream. [11]

Prices do appear high and can't continue to increase at current rates without reducing affordability and undermining demand. The price increases have caused problems for would-be first-time homeowners, particularly those living in high-priced markets such as Southern California, New York and Washington D.C. Since an economic slowdown isn't expected soon, the most likely scenario is that the rate of price increase will slow by the end of 2005 and then prices will resume a more normal rate of increase at above the rate of inflation. But even this will result in a reduction in the number of housing starts from their current levels.

Income growth is expected to remain solid, demographics remain favorable, and the global savings glut and low inflation expectations ensure that interest rates won't rise too high. Resource Information Systems, Inc. (RISI) now expects single-family starts for 2005 to reach 1.99 million, topping the record-setting levels of 1.95 million in 2004. With lower than previously projected interest rates and higher incomes and employment, housing starts should remain strong at least through CY 06. After CY 06, housing starts are expected to trend down to more normal levels.

Log and Lumber Imports and Exports

U.S. LUMBER

For all of CY 2004, almost 90 percent of Canadian lumber exports moved south to U.S. markets, 8 percent to Japan and just 2 percent to all other countries. U.S imports from Canada made up more than 1/3 of U.S. consumption. The U.S. produced 53 percent of the lumber produced in North America (N.A.) while consuming 85 percent of N.A. production. Despite Canadian efforts to decrease reliance on the U.S. Market, Canadian lumber exports for the first quarter of CY 05 are up 8.6 percent as compared to the same period last year, while exports to all other destinations were down by 19.1 percent. See table below for detail on North American lumber production, trade, and consumption in CY 2004.

North American Softwood Lumber Production & Consumption
CY 2004, In Million Board Feet

	Production	Import/Exports Canada/US	Imports Rest of world	Exports to Japan	Exports Rest of World	Apparent Consumption
US	38,987	20,972	2,543	(85)	(717)	61,700
Canada	34,700	(20,972)	231	(1,778)	(752)	11,429
Total N.A.	**73,687**	**-**	**2,774**	**(1,863)**	**(1,469)**	**73,129**

[11] The Kiplinger Letter March 18, 2005 volume. 82, No.11

LOGS

For the first quarter of CY 05, log imports to U.S. from Canada were 123 million board feet, up 126.2 percent from the same period last year. U.S. softwood log exports to Canada were 221 million board feet up 6.8 percent while log exports to the rest of world were down 10 percent.[12]

U.S. Softwood Log Export and Imports
CY 2004, In Million Board Feet, Scribner log scale

Import to US from Canada	Imports to US from Rest of World	Exports to Canada	Exports to Rest of World	Total Net Exports
376	2	(623)	(813)	(1,058)

CHINA

China imported 8.63 million cubic meters of logs, veneer, fiberboard, plywood and flakeboard during first quarter of 2005, up 390,798 cubic meters from the same period last year. Additionally, timber imports were up 6.74 percent over last year's first quarter. Import prices of timber are also on the rise, up 9.03 percent from the same period last year. [13]

JAPAN

Japanese log and lumber imports from North America have fallen by 42 percent from 1996 to 2000, since then they have fallen an additional 25 percent which has released about 1.6 billion board feet (Scribner) of logs for domestic production. This reduction has paralleled very closely the reduction in Japanese housing starts over this same period.

For the first quarter of CY 05, U.S. log exports to Japan were down 26 million board feet from the same period last year (-15.5 percent), while Canadian lumber exports to Japan were down by 26.3 percent from the same period last year. After next year, Japanese housing starts could resume their cyclical fall, if imports of wood from North America follow a similar pattern, they could fall an additional 44 percent by the end of the forecast period, freeing up an additional 600 million board feet of logs for domestic production. Two-thirds of these exports originate in Western Washington.[14]

We expect that competition from wood-producing regions will intensify over the forecast period as producers try to take advantage of recent increases in wood prices. Overseas capacity of engineered and solid lumber is expanding rapidly as producers take advantage of unexploited timber supplies in Eastern Europe and growing supplies in the Southern

[12] WWPA's Lumber Track Issued June 10, 2005
[13] Source Beijing–based China Construction News, as reported in Widman's Market Barometer, June 1, 2005.
[14] Source Clear Vision and Associates, Timber & wood products industry outlook November 2004

Hemisphere. This production will increasingly compete with North American products in both domestic and export markets.

Sawmill Capacity

Sawmills in the Coast region (Western Washington and Western Oregon) reported aggregate capacity of 12.5 billion board feet, up 910 million board feet over the previous year and one of the largest annual increases recorded for the region. Coast capacity has steadily increased from 10.0 billion board feet in 2000, a 25 percent increase. In the meantime capacity in the inland and California Redwood regions have fallen by a similar amount, leaving capacity in the West unchanged. In the Inland and California Redwood regions, log supply continues to be an issue.

During January, sawmills in the western U.S. and British Columbia (B.C.) responded to hot housing markets with increased production, 10 percent over last year. Due to weather and log supply factors (or a lack thereof), mills in other regions weren't able to respond quite as readily.

International Forest Products, Ltd. (Interfor), one of Canada's largest forest product companies, has agreed to buy a sawmill in Molalla, Oregon, for more than $50 million (US). This follows several Interfor purchases in Washington and Oregon last year. The Molalla operation about 30 miles south of Portland produced 220 million board feet last year, "has been significantly upgraded in recent years and is well positioned from a log-supply standpoint," according to a statement issued by Interfor, based in Vancouver.

Last year Interfor purchased three mills, one each in Gilchrist, Oregon, and Marysville and Port Angeles, Washington, from the bankrupt Crown Pacific Partners. The company's U.S. holdings also include four manufacturing facilities in Sumas, Washington. Following the transaction and the ramping up of production at Interfor's New Westminster B.C. sawmill (which is in the final stages of a $25 million (in Canadian $s) rebuild) Interfor's annual production capacity will increase from 1.2 billion board feet to just less than 1.5 billion board feet.[15]

The Pacific Lumber Co. has announced plans to permanently close its sawmill in Fortuna, California, effective June 30. A shortage of logs was cited. Sierra-Pacific has temporarily shut down two more sawmills due to a shortage of logs. Sawmills in Camino, California, and the Lincoln small log mill will remain shut down until log decks are replenished. Sierra-Pacific sawmills at Sonora and Chinese Camp also shut down in recent weeks due to a log shortage. TreeSource will shut down its Tumwater, Washington, dimension mill and planer beginning April 18 for an indefinite duration due to current log prices.[16]

[15] AP as reported by Jones Stevedoring Company April 11, 2005 www.jonesstevedoring.com
[16] Source The Campbell Group, *Timber Trends*, April 2005

Construction has begun on a new fir and hemlock stud and dimension lumber sawmill in Centralia, Lewis County, Washington. The mill's estimated annual lumber production is 180 million board feet. Centralia was selected due to log availability that suits the mill's high-tech equipment. "There's some really top-notch efficient equipment available now, that boosts mills' ability to get the most salable product from each log" according to Phil Tedder, one of the project's organizers. Tedder indicated that "there's not any extra timber, but there's a lot of timber harvested in the state of Washington being shipped to Oregon."

Timber Supply

Oregon's timber harvest jumped 11 percent in 2004 to 4.45 billion board feet of timber, up from 4 billion board feet in 2003 and the most since 5.29 billion was cut in 1993, according to an annual report by the Oregon Department of Forestry. Small woodland owners in Western Oregon were responsible for a big chunk of the surge, cutting 478 million board feet in 2004, compared with 298 million the year before.[17]

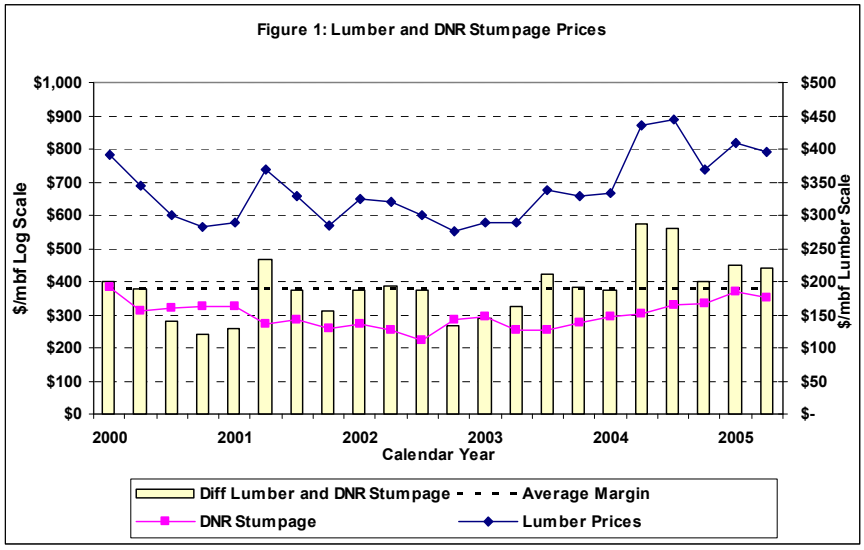
A preliminary study of harvest plans for the Tillamook and Clatsop state forests indicates the proposed level of timber sales cannot be sustained without sacrificing wildlife habitat improvements. The Oregon Department of Forestry study concludes proposed logging levels are about 30 to 50 percent more than the forests can sustain if they are to boost populations of salmon, elk, spotted owls and other species. The current annual harvest target, set in 2001 is 280 MMbf. The initial results of the new study show the forests can sustain logging of 149 million to 169 MMbf a year, depending on whether timber revenue or habitat is the priority. The potential reduction is equal to 3 percent of Oregon's total harvest in CY 03.

[17] Source: Oregon Department of Forestry

Lumber Prices

Coastal (western Washington and Oregon) softwood lumber production for the first three months of CY 2005 increased 8.4 percent over the same period last year while price remained steady.

Figure 1 shows a comparison of quarterly DNR stumpage prices and an index of lumber prices and the difference between the two. The difference can be used as an index of the margin between DNR stumpage and lumber. The margin increased significantly during the middle two quarters of CY 2004 due to higher lumber prices. During the last quarter of CY 2004 and to date in 2005, this margin has fallen but is still above the average for the CY 2000-2005 period.

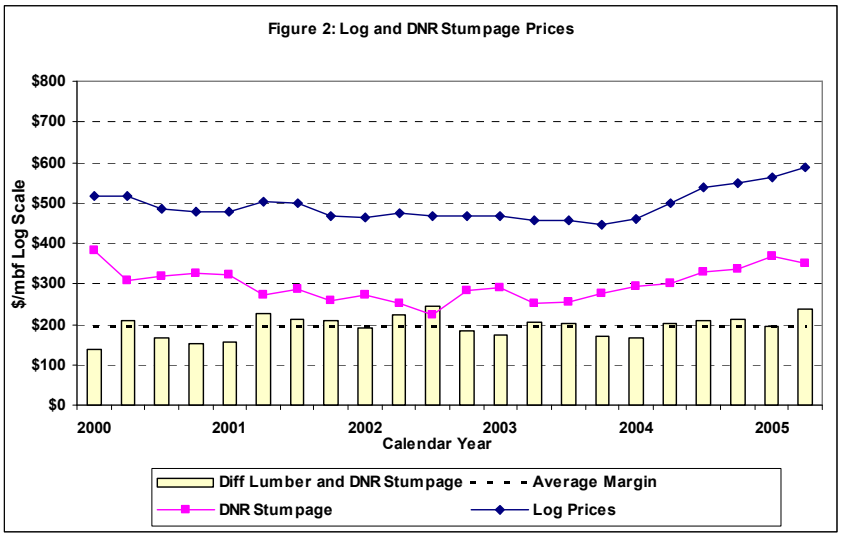


Current margins are above the average for the 2000-2005 period but are expected to shrink as lumber prices retreat, because new capacity tends to squeeze out older, less efficient capacity when demand for lumber falls. Going forward, lumber prices are expected to remain strong for the remainder of CY 05 and the first half of CY 06, then to fall by 10 percent (our lumber price index would fall to about $360/mbf). With average margins this would put DNR stumpage prices in the $305-$320 range over that period.

Log and stumpage Prices

Figure 2 shows a comparison of quarterly DNR stumpage prices and an index of log prices in Western Washington and the difference between the two. The difference can be used as an index of the margin between DNR stumpage prices and log prices.

DNR stumpage prices leveled off during the first two months of the second quarter of CY 2005 while log price continued to increase. The margin between log prices and DNR stumpage prices increased during CY 2004 and was above average during the first two months of the second quarter of CY 05.



Factors contributing to the outlook for timber prices

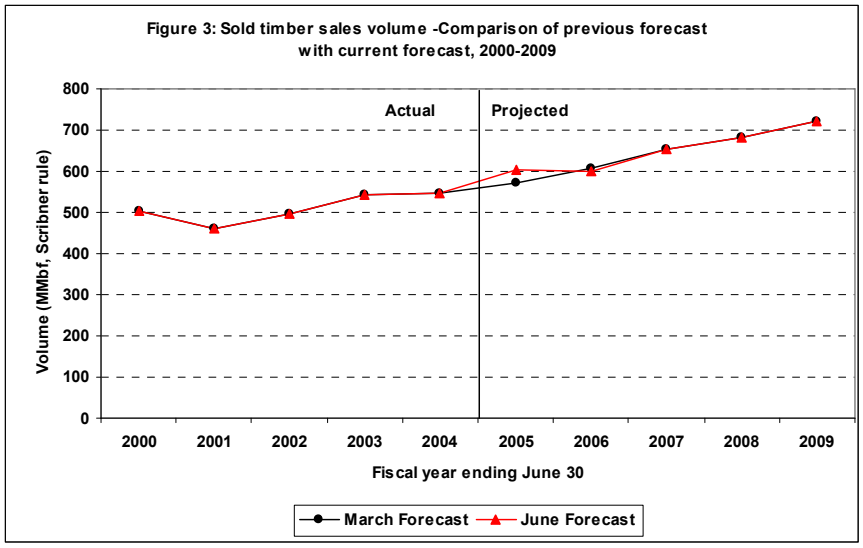
- Continued low interest rates and a strong economy are expected to result in strong demand for wood products during the remainder of 2005 and 2006. During this period, mills will continue to run at near capacity to meet demand. Tight supplies relative to demand will result in continued favorable price for both lumber and logs.
- Spurred on by relatively high lumber prices and margins, mills in Washington and in other areas where stumpage is relatively abundant will continue to add capacity.
- After 2006 through the end of the forecast period housing starts and lumber consumption are expected to retreat to levels more consisted with demographics. This will result in downward pressure on both lumber and stumpage prices. We expect lumber prices may fall by about 10 percent.
- The reduction in stumpage prices could be less, as the new capacity is able to operate at smaller margins than the capacity it replaces.

Part 3. DNR's Revenue Forecast

Timber Sales Volumes

At its September 2004 meeting, the Board of Natural Resources (Board) set the decadal (FY 2004-2013) average sustainable harvest level for DNR in Western Washington at 597 million board feet (MMbf). The forecast is based on a phase-in of the new sustainable harvest for Western Washington. The Western Washington sales volume increases from 464 MMbf in FY05 to 610 MMbf in FY 09 while the Eastern Washington sales volume is 106 MMbf in FY 05 and 112 MMbf in FY 04 through FY 09.

To take advantage of currently favorable timber markets the department has increased its sales by 35 MMbf in FY 05, part of this increase will be accomplished by bringing 7 MMbf of harvest forward from FY 06.



Thus far in FY 05 (July 2004 through May 2005) the department has sold 527 MMbf or 87 percent of the projected sales level for all of FY 05.

Compared to the previous forecast, the projected sold timber volume is little changed.

- The projected sales volume was increased by 35 MMbf (6.1 percent) in FY 05 and reduced by 7 MMbf (-1.2 percent) in FY 06.
- Projected sales volume is unchanged in the later years of the forecast.

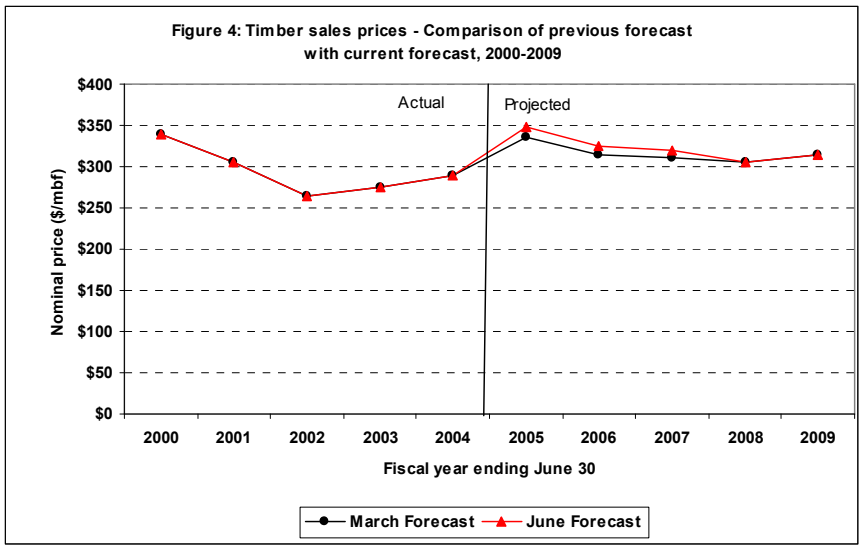
Timber sales prices

FY 05 will mark the third year in a row that timber prices have increased. Timber sales prices for all of FY 04 averaged $288/mbf, up from $276/mbf in FY 2003, which was up from $264/mbf in FY 2002.

DNR timber sales prices retreated slightly during the first two months of the fourth quarter of FY 05 to $350/mbf. Still, this was better than projected for that period in the March forecast. The average timber sales price to date (July 2004 through May 2005) for FY 05 is $347/mbf.

Changes from the March 2005 forecast:

- Based primarily on the strength of year-to-date prices, the forecast timber sales price for FY 2005 has been increased by $13/mbf to $348/mbf for the full year. This implies an average sales price for the remainder of 2005 of $354/mbf.
- In addition, the sales price for FY 06 has been increased by $10/mbf to $325/mbf, and the sales price for FY 07 has been increased by $10/mbf to $320/mbf.
- Prices for the last two years of the forecast are unchanged from those shown in the March forecast.



Lower prices during FY 06 through FY 08 are based on the assumption that housing starts drift down from their current level of over 2 million starts per year to a more sustainable level of 1.75 million starts per year and that the demand for wood products eases as well. This coupled with higher capacity will result in lower lumber and stumpage prices, although the reduction in stumpage prices will be less than that in lumber prices as mill margins shrink from their current levels. These projections could prove to be too low if housing starts continue to surprise on the high side. Beginning in FY 09 growing demand begins to increase nominal timber sales prices.

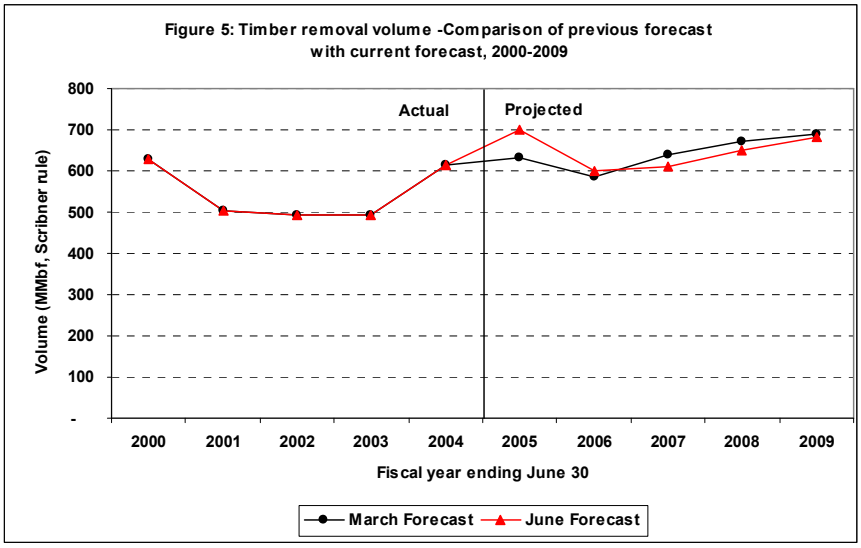
Timber removal volumes

Removals over the last 8 months (Oct. through May) have been very strong due to a combination of strong markets and favorable weather conditions. At 638 MMbf, FY 2005 to date (July through May) has had the best removals for that period since FY 1999. Based on the purchasers' survey, removals are expected to remain strong through the remainder of this calendar year and into CY 06. However, removals will be constrained by available timber under contract, and removals for FY 06 are projected to be near sales levels for that year. Going forward, removals will increase as timber sales increase albeit at a slightly lower pace as purchaser build their inventories under contract in proportion to increases in sales and removal levels.

Compared with the March 2005 forecast, estimated timber removal volumes are:

- Higher in FY 2005 by 70 MMbf (11 percent) to 700 MMbf;
- Higher in FY 2006 by 15 MMbf (3 percent) to 585 MMbf;
- Removal volumes decrease by 28, 21 and 8 MMbf, respectively, during the last three years of the forecast as purchasers bring volume forward into FY 05-06.

Figure 5: Timber removal volume -Comparison of previous forecast with current forecast, 2000-2009



Compared to the March 2005 forecast, total forecast harvest volume increased by 28 MMbf, this is equal to the increase in sales volume. This results in no net change in the volume under contract at the end of the forecast period (June 30, 2009).

If the anticipated slowdown in housing starts does not materialize, then the forecast of removals during FY 06 could prove to be low.

Finally, the increases in projected removal volumes during the last three years of the forecast are the result of increasing sales volumes. Should those planned sales levels not be realized, then the removal levels forecast during later years would be correspondingly lower.

Uncut Inventory Under Contract

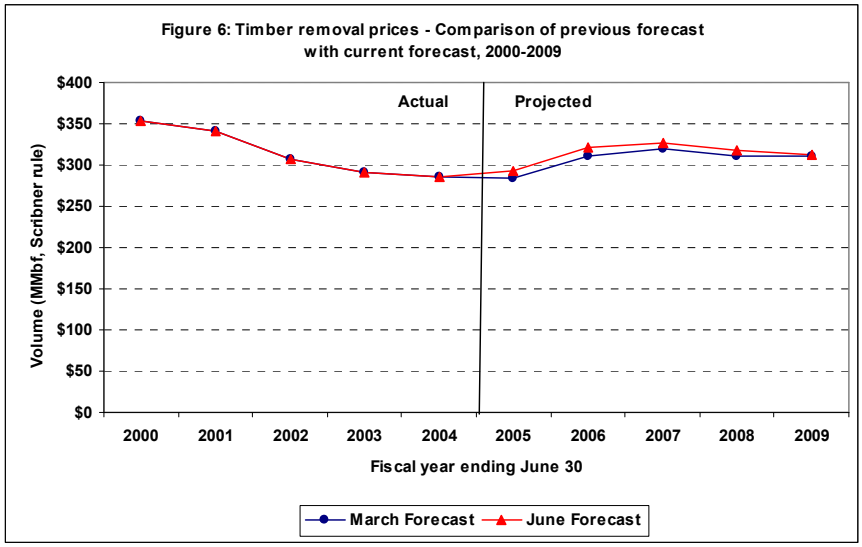
Purchasers have reduced the volume under contract by about 19 percent over the last 12 months (June 2004 through May 2005) to just 597 MMbf—less than 12 months' supply at our projected removal and sales level of 600 MMbf for next year. The volume under contract is projected to remain constant as removals equal sales in FY 06. During the later years of the forecast the uncut inventory under contract is expected to increase in proportion to the increase in sales and removals, ending the forecast period at 712 MMbf, representing about 12 ½ months' worth of inventory under contract.

Timber removal price

As a result of higher sales prices, removal prices increase over the forecast period (FY 05 through FY 09) as higher priced sales are removed.

Compared with the March 2005 forecast removal prices are up:

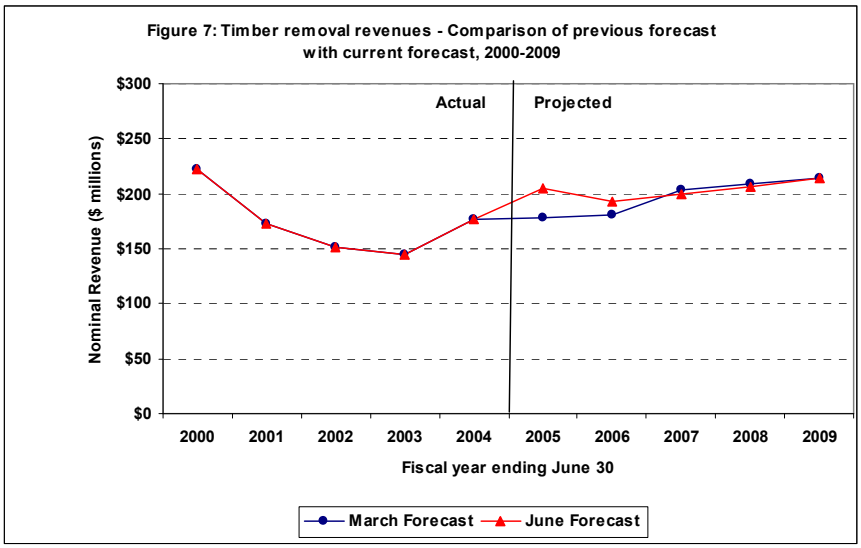
- $9/mbf (3 percent) in FY 05;
- $12/mbf (4 percent) in FY 06;
- $7/mbf (2 percent) in FY 07;
- $6/mbf (2 percent) in FY08; and
- $3/mbf (1 percent) in FY 09.



While sales prices bottomed out in FY 02, removal prices did not bottom out until FY 04 and started to rise in FY 05.

Timber removal revenue

Timber removal revenues are the product of removal volume and removal prices.



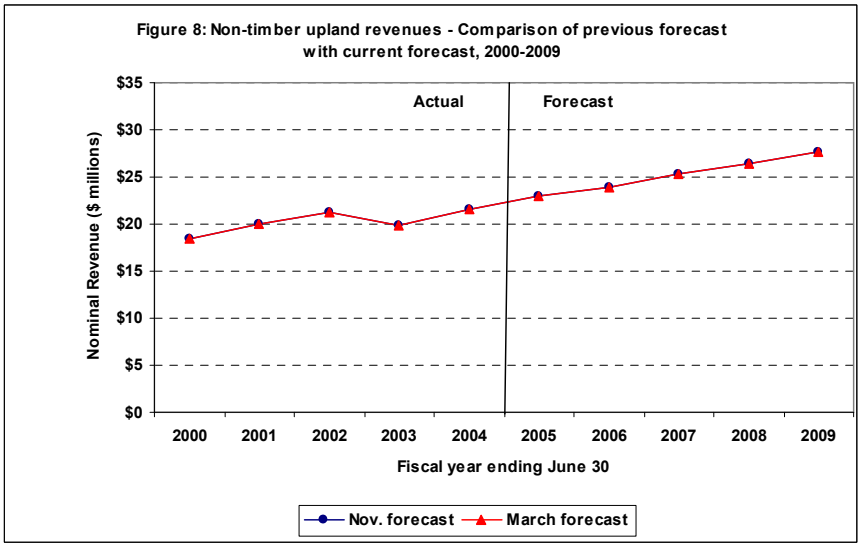
Compared with the March 2005 forecast timber removal revenues are forecast to be:

- **Up** $25.9 million (15 percent) in FY 05 and $11.6 million (6 percent) in FY 06
- **Down** $4.7 million (-2 percent) in FY 07, $2.5 million (-1 percent) in FY 08, and $0.2 million in FY 09.

The higher timber removal revenues in FY 05 are due primarily to higher removal volumes, while the higher revenues in FY 06 are primarily the result of higher sales prices and subsequent removal prices. The lower revenues in the later years are the result of reduced timber volume, which is partially offset by higher removal prices.
See Table 1 at the end of this forecast for detail.

Non-Timber Upland Revenues

Non-timber upland revenues are primarily from leases and the sale of valuable material (other than timber). In the forecast these revenues are divided into: 1) Commercial lease revenue, and 2) agricultural, and other leases and mineral. (See Table 1 for detail.)

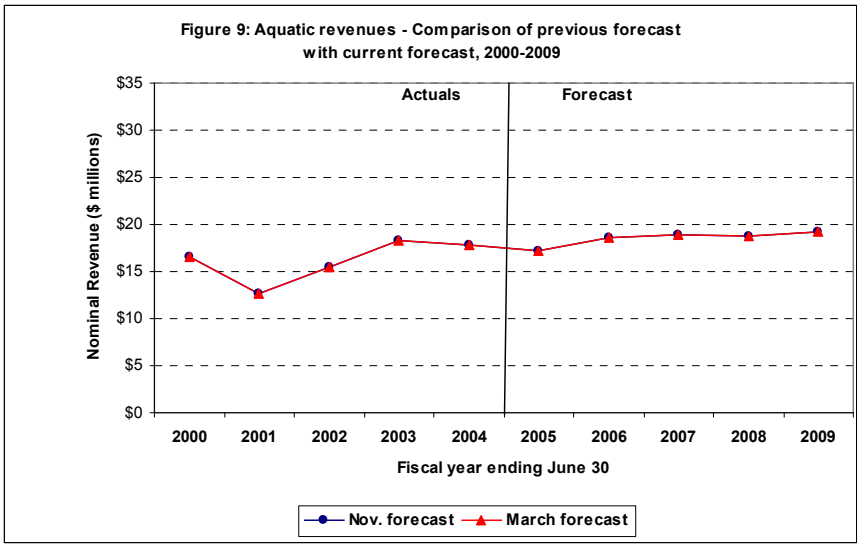


Forecast non-timber revenues are unchanged from the March forecast.

Aquatic Revenues

Actual aquatic revenues in FY 04 were $17.8 million, down from $18.2 million in FY 03.

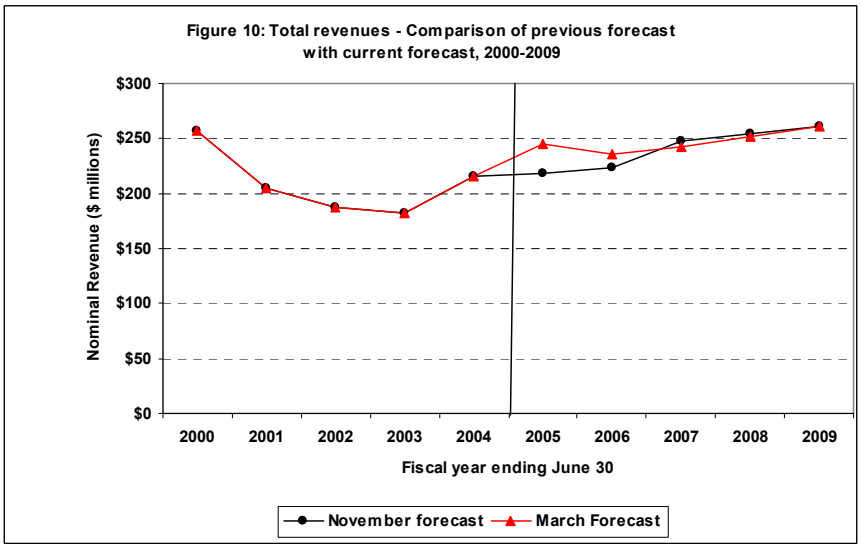
Forecast Aquatic revenues are unchanged from the March forecast.



Total revenues from all sources

Compared to the March 2005 forecast, forecast total revenues are:

- **Up**
  $25.9 million (12 percent) in FY 05 and $11.6 million (5 percent) in FY 06
- **Down**
  $4.7 million (-2 percent) in FY 07, $2.5 million (-1 percent) in FY 08, and $0.2 million in FY 09.



From the March 2005 to the June 2005 forecast, estimated revenues for the entire forecast period (FY 05-09) increased by $30.1 million (3 percent). All of the $30.1 million increase was from timber revenues; $20.2 million of this increase was the result of higher forecast timber sales prices and subsequent removal prices, and $9.9 million was the result of higher forecast sales volume and subsequent removal volumes.

In nominal price, forecast total revenues increase to $260.7 million at the end of the forecast period (FY 09) —just $3.7 million more than the total revenue ten years earlier (in FY 2000) of $257 million.

Distribution of Revenues

At its June 7, 2005, meeting, the Board of Natural Resources voted to increase the Resource Management Cost Account (RMCA) management fee from 25 percent to 30 percent for the 2005-2007 biennium (FY06 and FY07).[18] Authority to increase the fee for the 2005-2007 biennium was granted by budget proviso language in Section 945 of Engrossed Substitute Senate Bill 6090.

The fee increase applies only to the federally granted upland trusts, which support construction of public schools, universities, and other state institutions. It does not pertain to county 'Forest Board' lands or state aquatic lands.

Compared to the March 2005 forecast, revenues to the RMCA increased in FY06 and FY07 by $8.5 and $5.5 million (32 percent and 18 percent) respectively. Without the increase in the management fee, forecast RMCA revenues would have increased by $3.9 million and $0.8 million (15 percent and 3 percent), respectively. The increase in the RMCA management fund is expected to shift an additional $4.6 million per year to the RMCA.

Some Uncertainty Caveats

DNR strives to produce the most accurate and unbiased forecast possible based on the current policy direction of the department and the information available at the time the forecast is produced. Actual revenues will depends on future policy decisions made by the department, as well as market conditions beyond the control of the department. The following is a list of major potential policy changes and changes in market conditions that could impact future revenues from DNR-managed lands:

- The increase in the RMCA management fee during the 2005-2007 biennium (FY 06 and FY 07) removes a large uncertainty from the forecast for that period. However, without an additional budget proviso in the subsequent (2007-2009) biennium the RMCA management deduction will return to 25 percent and revenues to RMCA are expected to fall by $5.8 million. As indicated above, the forecast timber sales volumes are based on the Board of Natural Resources adopted sustainable harvest level. This higher sales level is predicated on the department having adequate management fund revenues to maintain this sales level. If adequate RMCA funds are not available then volumes and revenues in the 2007-2009 could be reduced.

[18] See DNR press release for detail http://www.dnr.wa.gov/htdocs/adm/comm/nr05_066.htm

- The department's new sustainable harvest level is being challenged in court. If the courts were to rule against the department, the sustainable harvest level could be reduced and/or implementation could be delayed, either of which would result in actual revenues falling short of those forecast.

- The increase in stumpage prices over the last two years has been fueled by a very strong housing market. The strong housing market in turn is the result of a strong economy and low interest rates. Going forward we assume the housing market, while cooling slightly, will remain relatively strong by historical standards. An unexpected increase in interest rates and/or a slowdown in the economy could result in lower housing starts, lower stumpage prices, and lower revenue than currently projected.

- As outlined in this forecast, housing prices have increase significantly over the last two years to the point that many observers believe that a bubble has developed. The forecast assumes that the current housing boom unwinds in a "soft landing"—moving gradually down to more sustainable long-term rates. If housing prices were to fall significantly, then this would trigger a bear housing market and starts could fall significantly below trend. This would reduce the demand for lumber and stumpage, resulting in stumpage prices and timber revenue significantly lower than are currently in our forecast.

These and other future events not listed here undoubtedly will have impacts on future revenues. As more information becomes available, DNR will incorporate that information into future forecast updates.

Table 1: June 05 Forecast by source (In millions of Dollars)

Change from March 05 Forecast

Sold Timber Sales	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Volume (mmbf)	548	605	600	652	682	722
Change	-	35	(7)	-	-	-
% Change	0%	6%	-1%	0%	0%	0%
Price ($/mbf)	$288	$348	$325	$320	$305	$315
Change	$0	$13	$10	$10	$0	$0
% Change	0%	4%	3%	3%	0%	0%
Value of Timber Sales (in Millions of Dollars)	**$ 158.0**	**$ 210.5**	**$ 195.0**	**$ 208.6**	**$ 208.0**	**$ 227.4**
Change	$ -	$ 19.6	$ 3.8	$ 6.5	$ -	$ -
% Change	0%	10%	2%	3%	0%	0%

Timber Removals	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Volume (mmbf)	616	700	600	610	650	683
Change	-	70	15	(28)	(21)	(8)
% Change	0%	11%	3%	-4%	-3%	-1%
Price ($/mbf)	$286	$292	$322	$326	$317	$313
Change	$0	$9	$12	$7	$6	$3
% Change	0%	3%	4%	2%	2%	1%
Timber Revenue (in Millions of Dollars)	**$ 176.5**	**$ 204.5**	**$ 193.0**	**$ 198.9**	**$ 206.2**	**$ 213.9**
Change	$ -	$ 25.9	$ 11.6	$ (4.7)	$ (2.5)	$ (0.2)
% Change	0%	15%	6%	-2%	-1%	0%

Non-Timber Revenue	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Agricultural and Mineral	$ 14.2	$ 14.9	$ 15.4	$ 16.3	$ 16.9	$ 17.6
Change	$ -	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%
Commercial	$ 7.4	$ 8.0	$ 8.5	$ 9.0	$ 9.5	$ 10.0
Change	$ -	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%
Aquatic revenue	$ 17.8	$ 17.2	$ 18.5	$ 18.9	$ 18.7	$ 19.2
Change	$ -	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%
Total Non-timber	**$ 39.4**	**$ 40.1**	**$ 42.4**	**$ 44.2**	**$ 45.1**	**$ 46.8**
Change	$ -	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%

Total All Source	**$ 215.8**	**$ 244.6**	**$ 235.5**	**$ 243.1**	**$ 251.3**	**$ 260.7**
Change	$ -	$ 25.9	$ 11.6	$ (4.7)	$ (2.5)	$ (0.2)
% Change	0%	12%	5%	-2%	-1%	0%

Trust land Transfer (resource value)	**$ 18.4**	**$ 19.9**	**$ 16.0**	**$ 32.3**	**$ -**	**$ -**
Change	$ -	$ (4.5)	N.A.	N.A.	$ -	$ -
% Change	0%	-19%	N.A.	N.A.	-	-

Note: Trust land Transfer is not included in distribution of revenues
Excludes interest and Land Bank Transactions, Fire Assessments, permits, and fees
Totals may not add due to rounding.

Table 2: June 05 Forecast by Fund (In millions of Dollars)

RMCA uplands in FY 06 & FY 07===> 30%
RMCA uplands in FY 08 & FY 09===> 25%

Change from March 05 Forecast

Management Funds		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
041	RMCA - Upland	$ 23.3	$ 28.7	$ 35.2	$ 36.0	$ 30.2	$ 33.0
	Change	$ -	$ 2.5	$ 8.5	$ 5.5	$ (0.3)	$ 0.1
	% Change	0%	10%	32%	18%	-1%	0%
041	RMCA - Aquatic	$ 7.4	$ 7.2	$ 7.7	$ 7.9	$ 7.8	$ 8.0
	Change	$ -	$ -	$ -	$ -	$ -	$ -
	% Change	0%	0%	0%	0%	0%	0%
014	FDA	$ 23.8	$ 25.5	$ 21.8	$ 23.1	$ 25.6	$ 25.0
	Change	$ -	$ 3.5	$ (0.0)	$ (0.8)	$ (0.1)	$ (0.1)
	% Change	0%	16%	0%	-3%	-1%	0%
Total Management Funds		**$ 54.4**	**$ 61.4**	**$ 64.8**	**$ 67.0**	**$ 63.6**	**$ 66.0**
	Change	$ -	$ 6.0	$ 8.5	$ 4.7	$ (0.4)	$ (0.0)
	% Change	0%	11%	15%	8%	-1%	0%

Current funds		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
113	Common School Construction	$ 49.8	$ 61.1	$ 57.0	$ 57.5	$ 63.1	$ 69.9
	Change	$ -	$ 3.8	$ 2.8	$ (3.3)	$ (0.1)	$ (0.1)
	% Change	0%	7%	5%	-5%	0%	0%
999	Forest Board counties	$ 70.7	$ 79.8	$ 68.7	$ 70.6	$ 76.7	$ 75.6
	Change	$ -	$ 11.8	$ (0.6)	$ (3.0)	$ (0.8)	$ (0.4)
	% Change	0%	17%	-1%	-4%	-1%	-1%
001	General Fund	$ 5.6	$ 3.0	$ 3.2	$ 4.1	$ 5.0	$ 4.7
	Change	$ -	$ 0.2	$ 0.5	$ 0.3	$ 0.1	$ 0.5
	% Change	0%	9%	19%	7%	2%	12%
348	University Bond Retirement	$ 0.6	$ 1.4	$ 1.5	$ 1.7	$ 1.9	$ 2.1
	Change	$ -	$ 1.0	$ (0.7)	$ (0.9)	$ (0.4)	$ (0.4)
	% Change	0%	218%	-33%	-34%	-18%	-16%
347	WSU	$ 0.8	$ 0.8	$ 0.8	$ 0.9	$ 0.9	$ 1.0
	Change	$ -	$ -	$ (0.0)	$ (0.0)	$ -	$ -
	% Change	0%	0%	-4%	-4%	0%	0%
042	CEP&RI	$ 6.0	$ 5.6	$ 5.3	$ 5.6	$ 5.9	$ 6.4
	Change	$ -	$ 0.4	$ 0.1	$ (2.2)	$ (0.5)	$ (0.0)
	% Change	0%	8%	3%	-29%	-8%	0%
036	Capitol Building construction	$ 5.6	$ 8.4	$ 8.0	$ 8.9	$ 8.3	$ 9.9
	Change	$ -	$ 0.8	$ 0.8	$ 0.0	$ (0.3)	$ (0.0)
	% Change	0%	11%	12%	0%	-4%	0%
061/3	Normal (CWU, EWU, WWU, TESC	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1	$ 0.1
	Change	$ -	$ -	$ (0.0)	$ (0.0)	$ -	$ -
	% Change	0%	0%	-7%	-7%	0%	0%
Other Funds		$ 1.0	$ 0.0	$ 0.1	$ 0.1	$ 0.1	$ 0.1
	Change	$ -	$ 0.0	$ 0.1	$ 0.1	$ 0.1	$ (0.0)
	% Change	0%	18%	#DIV/0!	249%	121%	0%
Total Current Funds		**$ 140.1**	**$ 160.4**	**$ 144.6**	**$ 149.5**	**$ 162.1**	**$ 169.7**
	Change	$ -	$ 18.1	$ 3.0	$ (9.2)	$ (2.0)	$ (0.4)
	% Change	0%	13%	2%	-6%	-1%	0%

(Continued)

Table 2(Continued): June 05 Forecast by Fund (In millions of Dollars)

RMCA uplands in FY 06 & FY 07===> 30%
RMCA uplands in FY 08 & FY 09===> 25%

Change from March 05 Forecast

Aquatic lands Enhancement Account	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
02R	**$ 10.4**	**$ 10.0**	**$ 10.8**	**$ 11.0**	**$ 10.9**	**$ 11.2**
Change	$ -	$ -	$ -	$ -	$ -	$ -
% Change	0%	0%	0%	0%	0%	0%

Permanent Funds		FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
601	Agricultural college	$ 3.6	$ 4.1	$ 5.1	$ 5.3	$ 4.2	$ 3.7
	Change	$ -	$ 0.4	$ 0.6	$ 0.2	$ (0.6)	$ (0.0)
	% Change	0%	9%	12%	5%	-13%	0%
604	Normal School Permanent	$ 3.2	$ 2.6	$ 2.6	$ 3.1	$ 3.6	$ 3.4
	Change	$ -	$ 0.5	$ (1.4)	$ (0.7)	$ (0.1)	$ 0.3
	% Change	0%	23%	-34%	-18%	-2%	10%
605	Common School Permanent	$ 0.4	$ 0.3	$ 0.3	$ 0.3	$ 0.3	$ 0.4
	Change	$ -	$ (0.0)	$ -	$ -	$ -	$ -
	% Change	0%	-7%	0%	0%	0%	0%
606	Scientific Permanent	$ 3.2	$ 5.2	$ 6.0	$ 6.0	$ 5.7	$ 5.8
	Change	$ -	$ 0.6	$ 0.5	$ 0.6	$ 0.3	$ (0.0)
	% Change	0%	12%	9%	12%	5%	0%
607	University Permanent	$ 0.4	$ 0.7	$ 1.2	$ 0.8	$ 0.9	$ 0.5
	Change	$ -	$ 0.5	$ 0.4	$ (0.4)	$ 0.3	$ 0.0
	% Change	0%	162%	55%	-34%	45%	0%
Total Permanent Funds		**$ 10.9**	**$ 12.9**	**$ 15.3**	**$ 15.6**	**$ 14.8**	**$ 13.7**
	Change	$ -	$ 1.8	$ 0.1	$ (0.3)	$ (0.1)	$ 0.3
	% Change	0%	16%	1%	-2%	-1%	2%

Total All funds	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09
Total	**$ 215.8**	**$ 244.6**	**$ 235.5**	**$ 243.1**	**$ 251.3**	**$ 260.7**
Change	$ -	$ 25.9	$ 11.6	$ (4.7)	$ (2.5)	$ (0.2)
% Change	0%	12%	5%	-2%	-1%	0%

Note: Trust land Transfer is not included in distribution of revenues
Excludes interest and Land Bank Transactions, Fire Assessments, permits, and fees
Totals may not add due to rounding.